EMB – THE EUROPEAN MILK BOARD

ANALYSIS OF THE EUROPEAN COMMISSION'S PROPOSALS FOR THE DAIRY MARKET[1]

1. BACKGROUND

On 9 December 2010, the European Commission – DG Agriculture and Rural Development – produced its proposals to the European Parliament and the European Council for stabilising the dairy market. This was its reaction to the chronic crisis in the dairy market and the resultant pan-European protests by the European milk producers against a destabilising dairy policy. The analysis below studies the Commission's proposals in terms of how practicable they are and what their impact on the dairy sector will be.

1.1 The causes of the crisis

The crisis in the dairy sector is evident in severe fluctuations in farm-gate prices, with them being mainly low, not enabling the costs of production to be covered. The upshot of this is milk production being displaced out of entire regions of the EU and concentrated in so-called low-cost regions. Production throughout Europe is increasingly becoming a thing of the past. The low farm-gate prices are caused by the existing structural deficit in the dairy market whereby the volume of milk supplied to the market exceeds demand. These excess volumes of milk weaken the position of the milk producers in the market. There is no possibility for the producers to stem overproduction under their own responsibility and thus react to the market conditions.

These problems are patently obvious at all times and have been especially so since the severe price collapse in 2009. Across Europe there have not been the requisite cuts in production to react to the low price. The market cannot make these adjustments on its own. The first reason is because in the dairy market there is invariably too little short-term price elasticity on the supply side, i.e. the ability on the supply side to react to changing prices. It is not possible to adjust production appropriately to falling or rising prices because of the characteristics of agricultural produce. For instance, it took a long time in some EU regions for production to be cut in 2009. Furthermore, the abolition of quotas for 2015 initiated by the EU policy has already had a negative impact on market developments. Increasing the quota by one per cent, which the EU did in 2009, resulted in production being stepped up in some low-cost regions. This meant that the medium-term cuts in production to be effected after the price collapse in other European regions were countered by an increase in volumes in these low-cost regions, which further enhanced the displacement process.

[1] Proposal for a Regulation of the European Parliament and of the Council, Brussels, 9 December 2010 COM(2010)728; 2010/xxxx (COD)

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In addition to the problems of oversupply, the unbalanced market structure in the dairy sector that weakens the milk producers' position is causing major difficulties. The 950,000 milk producers in the EU (2009) are mostly small enterprises and micro-farms. They scarcely pool their forces and act only on a regional basis. They are opposed by some 5,400 dairies[2], of which over 90 per cent are what are known as micro-enterprises or niche dairies. The ten largest dairies process about 30 per cent of the milk produced.[3] This imbalance in the market prevents producers from doing anything to counter the pressure on prices exerted by the processors. The result is prices well below a cost-covering level.

Contrary to that stated by the European Commission in its Proposal Paper of 9 December, the EU's current safety net has been incapable of overcoming the crisis. It has scarcely been possible to halt the loss in producers' income throughout Europe. For instance, in 2009 French milk producers saw their income plummet by an average of 54 per cent.[4] In Denmark the average operating loss of dairy farmers was 126,000 euros in the same year.[5]

1.2. The destabilising EU policy is bad for producers and consumers

For the milk producers of Europe the unstable situation means a real threat to their livelihood. Against this background the European milk producers' protests peaked in 2008 and 2009, in both years with a milk strike carried out in numerous European countries. As a result, in 2009 some 500 million litres of milk were dumped on fields or not supplied to the dairies in eight countries. Protest campaigns such as blockades of motorways and dairies, demonstrations outside political institutions, warning fires and the ditching of milk were carried out all across Europe. The shortage of supply resulting from this strike, which caused the producers involved severe mental stress and financial hardship, was partly responsible for a slight increase in prices. Above all, though, it brought home to the European politicians that there was a great need for action with regard to the EU dairy market. The political line pursued hitherto has made the entire sector even more unstable.

Particularly in view of consumers it is not in their interest to pursue a policy that is not geared to stabilising producer prices. For severe price fluctuations result in mechanisms from which processors profit and by which they increase their margins. Thus price increases are passed on to consumers, but often a lowering of the farm-gate price does not entail a reduction in the retail price.

As Figure 1 illustrates, it is precisely in countries with liberal systems that the difference between farm-gate and retail prices is so great. It shows a comparable shopping basket with dairy products under differing market conditions. Thus the highest farm-gate price is paid in the regulated Canadian market, but the retail price is considerably lower than in the USA, where the dairy market is regulated to only a limited extent. Compared to Great Britain the retail price in Canada is only slightly higher, but in the UK the milk producer's share of that is substantially smaller.

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[2] Eurostat: From grass to glass; a look at the dairy chain. 76/2008. 13.08.2008, p. 4
[3] LEI Wageningen (2006): European dairy policy in the years to come: impact of quota abolition on the dairy sector. The Hague, p. 13
[4] France Agricole, 14.12.2009: http://www.lafranceagricole.fr/actualite-agricole/revenu-agricole-2009-une-chute-de-32-avec-un-retour-20-ans-en-arriere-20893.html (on 7.12.10)
[5] Kvæg (Danish sector organization for milk and beef producers) http://www.vfl.dk/Afdelinger/Kvaeg/Kvaeg.htm (on 7.12.10)

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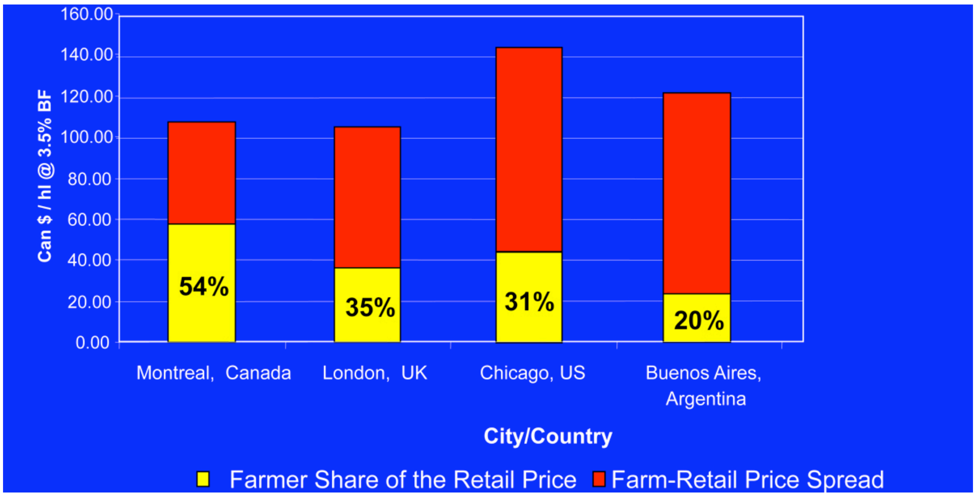
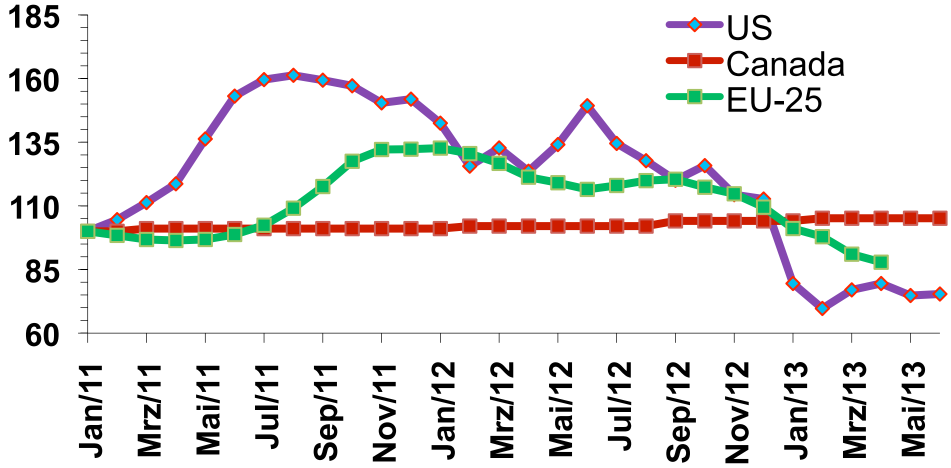
Figure 1: Producers' Share of the Retail Price



Source: Dairy Farmers of Canada

Figure 2 shows the drastic farm-gate price fluctuations in the deregulated US market and those in the EU compared to the stable price development of the regulated Canadian dairy market.

Figure 2: Farm-gate prices between 2007 and 2009



Source: Dairy Farmers of Canada

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2. ASSESSMENT OF THE COMMISSION'S PROPOSALS

As the preceding section clearly demonstrates, there is an urgent need to stabilise the dairy market with suitable instruments and prevent chronic price crises. **This aim cannot be achieved with the mechanisms presented by the European Commission.** The weakness of its current Paper is not in its analysis of the causes of the crisis. The diagnosis of the problems is partly correct. The Commission speaks for instance of an "imbalance in bargaining power" and "rigidities in the market" which lead "to a serious lack of adaptation of supply to demand and unfair commercial practices"[6]. The error is rather in the conclusions the European Commission draws from its analysis of the situation or also partly in its lack of willingness to apply mechanisms really consistently. Hence in principle the right way is to strengthen the legal position of producer organisations in the market. However, the proposed maximum degree of pooling, 3.5 per cent across Europe and 33 per cent on a national level, cannot sufficiently guarantee the producers' market position will be strengthened. Quite the contrary: the current position of producers in various EU countries would even be weakened by these small percentages. The problem is also that the Commission's paper provides for the members of producer organisations being denied the opportunity to pool.

By definition the inter-branch organisations proposed by the European Commission cannot *per se* help stabilise the dairy sector. The role allocated to them in "research, improvement of quality, promotion and spreading of best practice in production and processing methods"[7] gives them no opportunity whatever of exerting an effective influence on the volume in the market. The crucial factor is the totally conflicting interests of producers and processors when it comes to volumes and prices in the market.

Nor with the proposed optional contracts does the Commission make any contribution to strengthening producers and thus solving the dairy market crisis. The reason for this is the lack of the requisite conditions for drawing up fair contracts. The heavy concentration on the dairies' side versus a large number of unorganised producers on the supply side means there is no level playing field in negotiations. The inequality of positions results in the terms of such contracts being dictated to the producer as the weaker player in the market by the processor.

Only a functioning market can ensure cost-covering farm-gate milk prices and cater for society's interest in a sustainable supply of high-quality milk. This necessitates the volume produced being geared to demand, and cost-covering producer prices being taken as the benchmark. To this end the European Commission ought to set up a European **monitoring agency,** in which the market players adjust volumes under their own responsibility. This monitoring agency can provide the framework for a balance of interests between milk producers and the dairy industry, and ensure that social concerns are respected.

In the following sections we shall assess the key points of the Commission's paper in detail before we provide a synopsis of the monitoring body in the chapter after that.

[6] COM(2010) 728; 2010/xxxx (COD), p. 3
[7] ibid

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2.1 Pooling producers in producer organisations to negotiate contracts

As the European Commission correctly stated, the dairy market is characterised by a heavy concentration on the processor side, whereas the producers are scarcely organised. The resultant weak position of the dairy farmers in the market is partly responsible for the extremely low farm-gate prices and opens the floodgates to unfair commercial practices. That is why in principle the European Milk Board welcomes the European Commission's proposal to improve the dairy producers' position in the market by giving them greater opportunities to pool together. It must, however, be a real increase in opportunities to get organised. The maximum level of 3.5 per cent of the EU milk volume and 33 per cent of the national volume proposed by the European Commission disregards the market circumstances and would really bring little improvement or even noticeably restrict the existing possibilities producers have in some EU states.

The problem of 3.5 per cent throughout the EU

At 3.5 per cent of the EU volume, the pooling of dairy farmer organisations would be limited to about 4.7 billion kg milk. That is much too little, because dairies like Arla Foods and FrieslandCampina, which process 8.7 billion[8] and 11.7 billion[9] kg milk respectively, already have a share of some 6.5 and 8.8 per cent of the European market. What is more, they can continue to grow without hindrance and acquire even larger market shares.

In addition, the dairies are groups with a central management that can operate in a more targeted way than a community of individual dairy cattle farms. As the dairies controlling the market are so huge, they do not even need agreements to pursue a unified strategy for purchasing raw milk. This concentration of, say, 8 per cent on the dairy side must therefore be countered by a manifestly greater concentration on the producer side to enable producers to attain a similar position in the dairy market. 3.5 per cent for the farmers would not sufficiently balance out the unequal positions. Unfair positions would remain. That is why the EMB had submitted the draft of a block exemption with an EU-wide pooling level of 30 per cent to the European Commission.

The problem of 33 per cent national pooling level

The proposal to limit national pooling to 33 per cent also ignores the real situation in the national dairy sectors. One of the numerous examples is Denmark, where the Arla Foods dairy already holds a 95 per cent share of the market.[10] That makes it already nearly three times as strong as any producer organisation ever could be under the European Commission's proposals. Another example is Ireland, where just three dairies dominate the milk market.[11] To improve the producers' bargaining position to the extent required there must obviously be a substantially higher level of pooling for dairy producers.

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[8] Arla annual report 2009: http://www.arlafoods.de/uber-uns/geschaeftsbericht-2009/kennzahlen-im-uberblick/ (on 6.12.10)

[9] Friesland Campina key performance indicators: http://www.campina.de/uber-uns.aspx (on 6.12.10)

[10] Baking + Biscuit 2009 issue 04, S.32

[11] LEI Wageningen (2006): European dairy policy in the years to come: impact of quota abolition on the dairy sector. The Hague, p. 13

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If that is not taken into consideration and the low pooling limits of 3.5 and 33 per cent respectively are adopted:

a) These pooling limits will cause severe problems for small producer organisations that exist in an environment with *no or few* other producer organisations, i.e. with many unorganised dairy farmers. For they will have too little bargaining power to negotiate a fair price for their members.

If
b) *Many* small farmer organisations exist alongside one another, the competition between them will result in severe pressure on prices and prevent prices that secure a livelihood being achieved. The higher the number of producer organisations (in relation to the number of regional raw milk buyers), the greater the risk that in their (legitimate) search for the cheapest raw material the buyers will play the individual organisations off against one another. This is quite evidently the current situation in Switzerland. The competitive struggle between many producer organisations in a surplus market results in a farm-gate price level that is way below production costs and threatens the livelihood of many farms.

In the EU, too, there are many examples from practice that prove a higher maximum level of pooling is imperative: Germany produces about 30 billion kg of milk a year. Just under one third of that is currently produced by the members of the MEG Milch Board producer organisation (some 7 billion kg of raw milk). Despite this national pooling level of roughly 30 per cent, the MEG Milch Board is still not in a position to negotiate for the milk producers. But this 30 per cent in Germany would already exceed the 3.5 per cent EU limit (4.7 billion kg) – that is why the proposed limit is nowhere near enough for the MEG Milch Board und would severely restrict the Milch Board's aims. The national pooling limit of 33 per cent would also massively reduce the existing legal possibilities for German producer organisations. So far under the "Market Structure Act" they have been allowed to pool 70 - 80 per cent of national milk (21 billion – 24 billion kg).

In Germany, too, the Humana and Nordmilch dairies are preparing intensively to merge – the final contracts are to be signed already in early 2011. That will create in Northern Germany a company that processes about 7.5 billion kg raw milk. That makes the volume of milk too large for a single Humana-Nordmilch supplier organisation, and there is a risk that several groupings will form that can individually be put under pressure by the dairy.

The problem of the exception of collectives

It is clear in the paper on the dairy market that the prevailing image of dairy co-operatives among the European Commission has little in common with the real situation. According to the paper, members of dairy co-operatives are to be excluded from pooling possibilities under producer organisations. This is based on the false supposition that the interests of dairy farmers within the co-operatives *per se* would be considered. This does not correspond to the prevailing circumstances, though. Because in fact the milk producers' interests are only very marginally considered in co-operatives. The European Commission must consider the existing experiences in the individual member states and must not take as its basis theoretical assumptions that bear no relation to reality. Although the approach is right, that the producers' ownership of the respective means of production of a co-operative would have to exclude existing problems, the co-operatives' evaluations show that the real structures do not equate to this conception:

- For instance, European examples show that in only 25 per cent of dairy co-operatives are the means of production owned by the co-operative. Often the means of production were split off to group companies in the form of spin-outs, but also some were completely disconnected. In that way they

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are no longer under the direct control of the co-operative members.

- In only very few collectives are solely active dairy farmers entitled to vote. There are many examples of 25 – 50 per cent of the members of the co-operative not being active milk producers. Those non-milk producers are interested in a cheap raw material – a low farm-gate milk price – as otherwise the corresponding money do not go to the co-operative.

- As the German example shows, there is also very often a mismanagement of interest because the executive boards are frequently supported in General Meetings by organisations such as Co-operative Associations, the Dairy Industry Association and the Farmers´ Union. This enables the management to push through economic or corporate decisions using "expert assistance". On the other hand the number of milk producers appearing at the General Meetings are dwindling. Owing to other burdens or political frustration their representation in German co-operatives has fallen to 50 per cent on average.

- The problem is also that often in co-operatives the farm-gate price is not geared (as is customary in the market) to the success of the enterprise but to the average overall market/ surrounding market. This leads to an asymmetrical redistribution of the business to the producers.

Not giving co-operative producers the opportunity to pool together within producer organisations at least for collective sales conditions, to achieve a fair farm-gate price, is totally unjustified, given the problems referred to. Only if members´ interests were adequately considered by co-operatives would such assumption be comprehensible. However, as reality shows, this is not the case, because the producers´ actual power within the European co-operatives is marginal. This situation must play an important role in the reform of the dairy market.

2.2 Inter-branch organisations

In the form described by the EU Commission, inter-branch organisations can certainly support greater transparency, but as practice shows they cannot act as market stabilisers. For instance, examples from the fruit and vegetable sector show that there are still huge price fluctuations. One of the reasons for this is that the producers do not have enough influence in these organisations.

In Switzerland, which abolished the milk quota back in 2009, the inter-branch organisation commissioned by the Parliament was established, the Branchenorganisation Milch (BOM). This organisation has enshrined in its objectives the introduction of supply control. To date no such control has been put into effect, and the Swiss market is characterised by huge excess volumes. These are sold well below production costs in the markets of the EU and on the world market. Nevertheless, to enable the dairies to operate at a profit a resolution was passed at the Annual Meeting of the BOM to segment milk in A, B and C prices. While the benchmark price is paid for the A milk, the farmers receive only much lower prices for milk declared as B or C milk. It is patently obvious that this decision taken by the Swiss inter-branch organisation is due to a position of weakness of the producers in this body. Only if dairy farmers are pooled in their own organisations and able to control the volume of milk before the dairy can they improve their position in the dairy market and secure a fair living.

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In the future, too, inter-branch organisations will not succeed on the EU level in establishing a more intensive exchange between the players in the dairy value chain to enable the dairy market to be balanced. As the example of Switzerland also shows, the interests of the parties involved are far too disparate for sustainable solutions to be found in this way. That is why a monitoring body is indispensable. In addition to continually and promptly recording developments in prices, costs, volumes and the market, the body must also pursue the aim of sustainable dairy production in every region of Europe. On the basis of production cost calculations the monitoring body would stipulate a target price bracket, which in turn would have to serve as a benchmark for volumes to be produced. Demand-driven supply is the basic prerequisite for cost-covering farm-gate prices and would have a more positive effect on agriculture in Europe than expensive, taxpayer-funded measures like intervention, export subsidies or emergency payments. Within this monitoring body, which must focus quite clearly on the aim of cost-covering farm-gate prices and fair retail prices, intensive communication would be possible between the dairy industry and producer organisations as well as representatives from politics and civil society. More details on that in section 3.

2.3 Contracts

The problematical issues with contracts envisaged by the European Commission as an optional prospect for member states are manifold.

a) Experience shows that contracts between unequal negotiating partners, far from ending the disadvantage of the weaker negotiating partner, merely reinforce it. As concentration is prevalent on the dairy side, terms and conditions are also dictated by the dairies as the stronger market player. This has already been established by the German Federal Cartel Office in a study of the sector.

b) It is unlikely that EU states will opt for making contracts between dairies and dairy farmers that take the milk producers' production costs into consideration obligatory. Only in this way could an actual improvement in the dairy farmers' position be achieved. The dairy market does not end at national borders. If a state introduces obligatory contracts that have market-regulating effects but other countries do not follow suit, the country with the obligatory contracts is technically at a competitive disadvantage in the EU. So the proposal turns out to be a toothless tiger. A Common Agricultural Policy cannot be achieved in the EU with such optional measures. On the contrary, this will only further exacerbate detrimental competition situations between the member states.

c) Nor can the Commission's statement that it will exempt co-operatives from the obligation to enter into contracts be justified. The German Cartel Office has clearly shown that **it is precisely in co-operatives that "upside down" pricing takes place**, i.e. the farmer gets what is left over from the sales markets depending on the market situation. In the estimation of the competition watchdogs this upside down pricing offers few incentives for the co-operatives "to achieve a better deal from their own customers (e.g. retailers) than if they (the co-operatives) were to first negotiate the farm-gate price with their members".[12] This applies to co-operatives all over Europe. If the co-operatives are given a special position because it is falsely assumed this will put dairy farmers in a better position, this will not improve their weak position at all. This is particularly disastrous, since a high percentage of milk producers in the EU are in co-operatives – 58 per cent of the EU volume is processed in dairy co-operatives[13].

[12] Deutsches Bundeskartellamt (2009): Sektoruntersuchung Milch Zwischenbericht (B2-19/08), http://www.bundeskartellamt.de/wDeutsch/publikationen/Sektoruntersuchung.php, p. 56 ff. (on 15.12.10)
[13] COM(2010)728; 2010/xxxx (COD), p. 9

The European Milk Board has to reject contracts for the reasons stated above. If nonetheless the dairy sector is to be regulated on the basis of contracts between producers and processors in the future, corresponding minimum criteria must be met.

Indispensable minimum criteria for contractual arrangements between processors and producers:

1. Minimum criteria are binding in the entire EU,
2. Entire, contractually agreed, volume is sold at one single price per buyer,
3. Duration of the contract has to be defined,
4. Price agreement has to consider the average full costs of milk producers in the EU to prevent dumping prices,
5. If the price agreement is more than 10% lower than the level of full costs, the obligation to supply or rather the contract is nil and void.
6. Contracts can be concluded between processors and real and independent producer organisations, but not between individual producers and dairies, cooperative dairies are not considered as producer organisations,
7. Contracting dairies are obliged to abstain from importing milk from third countries,
8. After their conclusion contracts have to be reported without delay to the European monitoring agency,
9. Coherent European standards for a basic price (fat, protein, cell count ...),
10. Labelling of dairy products or rather imitations has to be defined clearly and violations have to be sanctioned severely.

2.4 Voluntary control of delivery volumes

In the 2010 report, which was published in addition to the European Commission's Proposal Paper, it says: "In case of serious imbalance, as a further tool to stabilise the market and as an exceptional measure if other measures available under the single CMO appeared insufficient, the Commission could consider a system based on Article 186 of the single CMO ("disturbance clause") that would allow milk producers, on a voluntary basis, to reduce their deliveries against compensation. Experience gained during the milk crisis shows that it may be sufficient to take 1 or 2% of overall milk production out of the market to correct imbalances and restore stability.[14] With this proposal the European Commission acknowledges that preventing or restricting the production of surpluses upstream has a stabilising effect on the market. This is an important way, which unlike the quota increases, export subsidies and intervention purchases implemented so far by the EU policy, does not swamp the market with milk to only later dispose at great expense of volumes already produced. This proposal from the 2010 report is a sign that the European Commission is revising its previous policy – even if these reflections are still not adequate. The Commission

[14] REPORT FROM THE EUROPEAN COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL, Evolution of the market situation and the consequent conditions for smoothly phasing out the milk quota system, Dec. 2010, p. 8

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ought to pursue with greater endeavour the policy of preventing overproduction. Flexible adjustments of supply to demand are a must for a stable market.

2.5 Liberalised sectors are the wrong models

The Commission paper repeatedly refers to the alleged model function of other sectors where support measures to create adequate framework conditions have already been abandoned more or less. It does not mention, however, that these markets are confronted with high surplus volumes and instable producer prices. One example of such a market-oriented sector is the fruit and vegetable industry. It would be disastrous to refer to the liberalisation of these sectors as a model for the dairy market. In these sectors, too, business revenues often fall short of business expenditures.[15] Analyses show that in the case of easily perishable fruit and vegetable produce in particular, the average cost of production is lower than the average revenues.[16] It is precisely because both sectors exhibit many commonalities that liberalisation and its negative consequences should *not* be transferred to the dairy sector. Both markets share the perishable nature of their products and both see strong concentration processes. For example, there are million fruit and vegetable producers versus less than 100 buyers in the European supply chains.[17]

And in the pork and poultry sectors, situations characterized by strongly volatile prices having a negative impact on both producers and consumers are very common, too. The players in the value chain work with high safety margins to counteract these factors, which in turn leads to a noticeable increase in retail prices and a drop in producer prices.

2.6 More transparency

The EMB welcomes the EU Commission's proposals to enhance transparency. Sending information on the volume processed from processors via the national level also to the EU level is an important point that must also be taken into account in the future. It is important, however, that there are instruments that allow this information to be used in order to respond actively to the milk market situation. This is why the next section provides a more detailed description of the monitoring body as an effective instrument to stabilise the dairy market.

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[15] ZBG (2007) Zentrum für Betriebswirtschaft im Gartenbau (ed.): Kennzahlen für den Betriebsvergleich im Gartenbau. 2007 – 50. Volume, Hanover

[16] Humboldt University Berlin (2008), Faculty of Agriculture and Horticulture, research project on national strategy for fruit and vegetable producer organisations in Germany, draft final report, p. 7

[17] ibid, p. 10

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3. POSSIBLE SOLUTION – MONITORING BODY

On account of its specific structures and the huge importance of milk as a foodstuff, the dairy market cannot be left to its own devices. Politicians must create the right framework conditions. In this context, the European Milk Board suggests to establish a monitoring body.

The monitoring agency must be organised at European level. It ascertains the full costs of producing milk in Europe and defines the lower and upper limit of the target producer price for 1 kg milk (3.7% fat, 3.4% protein) based on a fixed formula. This results in a target bracket (target corridor); the average milk price in Europe should be within this corridor. **This model does not define or specify prices. The pricing shall be determined freely on the basis of the market, as it has been hitherto**. If the market price falls outside this defined corridor, it is the parameters (ratio between supply and demand) that will be adjusted, not the prices. This ensures a maximum of market economy in the future milk market.

If the average European milk producer price falls below the lower limit of the corridor, milk production will be gradually cut at producer level until the farm-gate price is once again within the target corridor. If the producer price exceeds the upper corridor limit, the milk volume will be increased until the average producer price is once again within the corridor. Volume adjustment will be managed by producer organisations.

Each member state posts one representative of the milk producers and one consumer representative to the monitoring body. In addition, representatives of the dairy industry and politicians will be involved in an advisory capacity. The monitoring body has several full-time members of staff who gather the requisite data on the development of production costs, demand, producer and retail prices. This caters for the need of all market players for more transparency. The involvement of consumer representatives is also important in order to ensure the transparency of decisions and their alignment with the objectives of the monitoring body.

Such a model clearly strengthens the position of producers and consumers. The EU Court of Auditors wrote in a press release on the extraordinary milk summit in October 2009: "The concentration of processing and retailing companies must not reduce milk producers to "pricetakers", and must not restrict opportunities for final consumers to fairly benefit from decreases in prices.[18] Supply control strengthens the position of milk producers vis-à-vis the processing industry, and the system-inherent lower market volatility enhances the consumers' position with regard to retailer speculation. The market can function better. The monitoring body creates the requisite boundary conditions by re-establishing the balance of power; by doing so, it saves taxpayers' money that is no longer needed to dispose of surplus production and for urgent remedial action.

4. CONCLUSION

Section 33 of the Treaty on the European Union stipulates the objectives of the Common Agricultural Policy. They include ensuring a decent standard of life (based on adequate per capita income) for the agricultural population. The present analysis shows that the current proposals of the EU Commission are not suited to achieving this objective in the dairy sector. What is more: maintaining the liberalisation strategy does not offer a desirable perspective for producers, consumers or politicians. Concentration and displacement processes will characterize the EU dairy sector to an ever greater extent and will make European-wide milk

[18] European Court of Auditors, 15 October 2009
http://europa.eu/rapid/pressReleasesAction.do?reference=ECA/09/63&format=HTML&aged=1&language=EN&guiLanguage=en (on 15.12.10)

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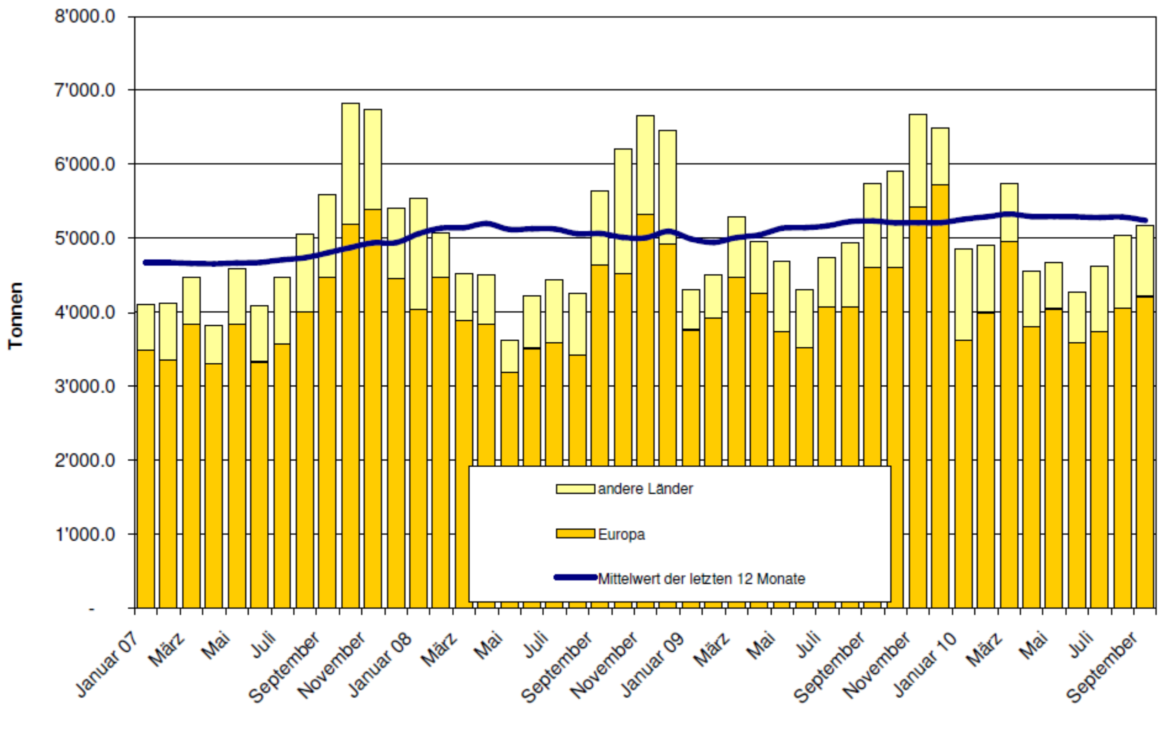
production impossible.

EU politicians must give greater consideration to practical examples in order to be able to evaluate their own decisions realistically. The current situation in Switzerland shows that market liberalisation is highly problematic. Since the abolition of quotas in May 2009, the Alpine state has been producing surpluses and butter mountains have accumulated to reach a record high. Imports, for example cheese, far exceed exports (see figures 3 and 4). Switzerland is far from conquering the world market, as some people hoped, but the opposite is true: the world market benefits from the Swiss market and producer prices are plummeting. This is why there are first signs of politicians changing tack. A volume management system led by producers is being advocated. 16 months after phasing out quotas in Switzerland, the upper chamber of parliament (National Council) voted on 1 October 2010 in favour of introducing a producer-controlled supply management system. Based on this proposal, each producer shall continue to have the possibility to deliver any quantity of milk. However, in future, it will be possible to levy a charge of 30 centimes maximum (22 eurocents) per litre on milk produced in excess of the respective farmer's contractual volume; the levy shall cover the costs of selling the surplus milk on the low-priced world market. The basis for defining the contractual volume will be the milk quota that was valid during the last year of the milk contingents.

Figure 3: Development of Swiss cheese imports (incl. ready-made fondue and soft cheese)



Source: SMP – Swiss Milk Producers' Association

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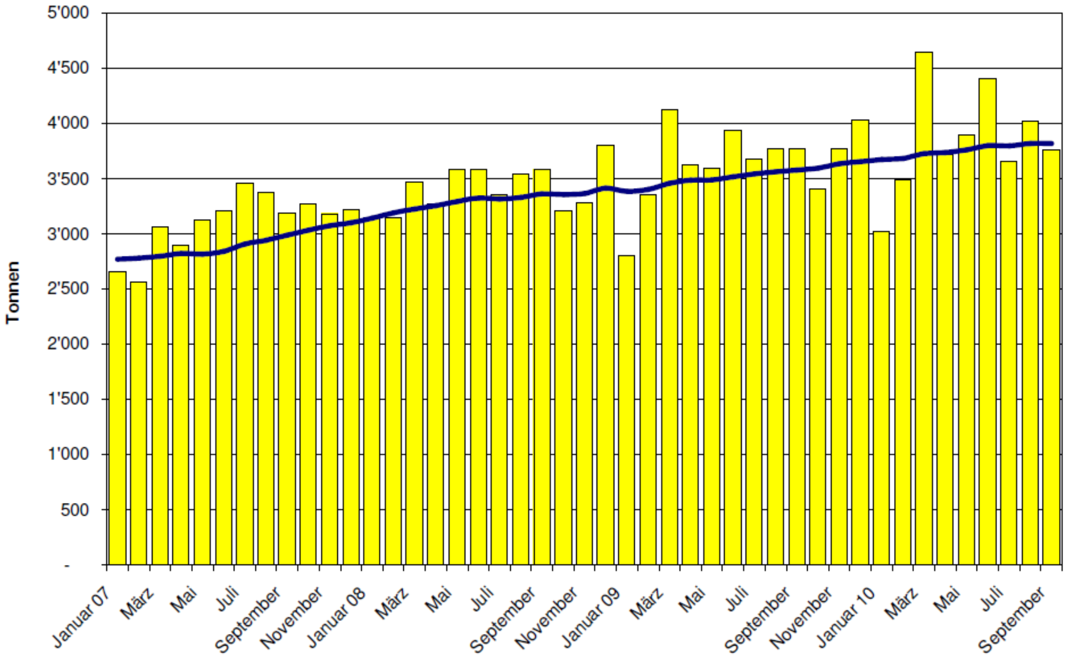
Figure 4: Development of Swiss cheese imports



Source: SMP – Swiss Milk Producers' Association

The same holds true for Switzerland and the EU: if the state withdraws from volume control, it is responsible for providing milk producers, being the weakest link in the milk food chain, with effective instruments to avoid surplus production of their own means and under their own responsibility. The monitoring body would be such an instrument having a stabilising effect for producers, processors and consumers. The security and predictability thus achieved also make it possible to lower the costs of risk hedging. This means that all players of the value chain can optimize their performance. The cost savings permit better prices both for consumers and producers.

Australia is struggling with the consequences of deregulation, too (see Figure 5). The liberalised system is currently under review in this country in order to counteract the extremely low producer prices and high retail prices. The list of countries seeing change also includes the USA where strong price fluctuations on the milk market have made life difficult for producers for the past 20 years. The transition to a supply management system is therefore under consideration at national level. These examples demonstrate: supply management is indispensable! The mistakes made in these countries should not be repeated in Europe. The situation on the EU dairy market is too fragile to afford mistakes, and the European model of multifunctional agriculture is at stake.

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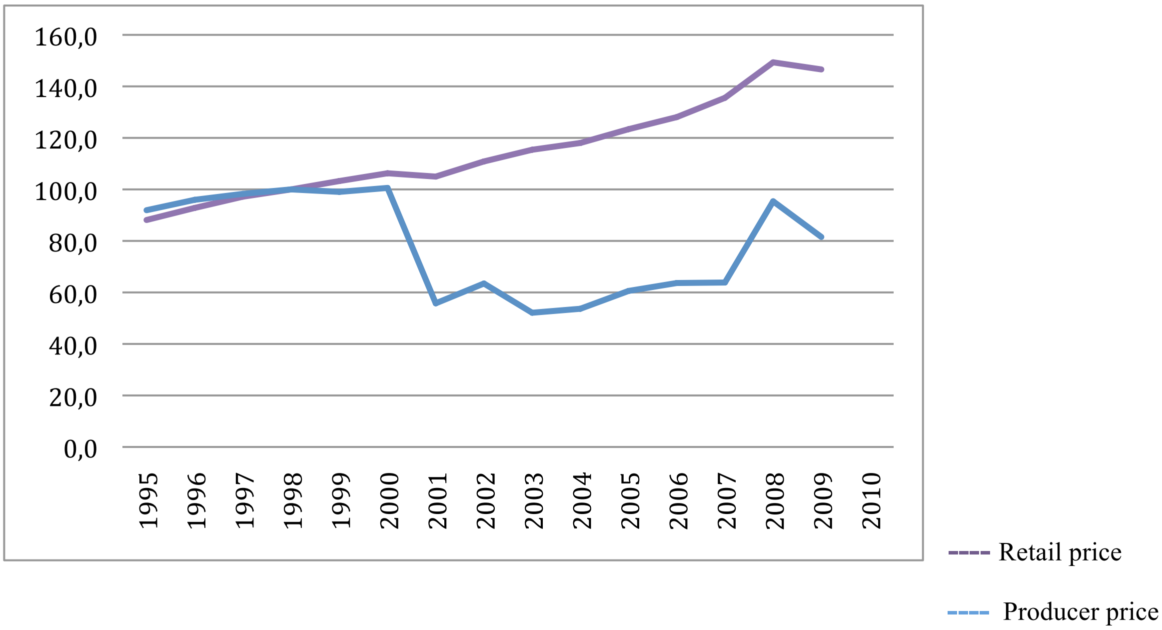
Figure 5: Influence of deregulation of the Australian milk market on producer and consumer prices (year 2000)



Source: Dairy Farmers of Canada

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